

O.D.S.

ORIG DOC(S) BAD
BEST COPY

AVAILABLE

*ENTIRE DOCUMENT
IS IN EXTREMELY BAD
SHAPE.*

IMU

William Harboe, Vol. II, No. 3, Sept., 1958.

YUGOSLAVIA AND THE SOVIET UNION

Craig E. Lovitt

Yugoslavia has discovered that Soviet economic assistance involves more promise and peril than performance. Yugoslavia has received more offers of assistance than any other country in the "economic offensive" launched by the Soviet Union after Stalin's death. But now, five years later, all that the Yugoslavs have to show for the Soviet promises of nearly half a billion dollars are numerous agreements, a pile of blueprints, some huge gaps in their five-year plan and the threat of diminished trade with the Soviet bloc countries.

All this has come about because Tito reasserted his long standing policy of combining Marxist theory with Yugoslav nationalism and refused to rejoin the "socialist camp" under Soviet leadership. As a result, Khrushchev delayed trade talks for 1958 and, more importantly, on May 27 he "postponed" a \$285 million credit to Yugoslavia. The suspension of the credits involves the two major items of the \$ 465 million aid programme worked out for Yugoslavia by the Soviet bloc after Stalin's death as part of the plan to regain Tito's friendship and re-establish Communist solidarity.

In January, 1956, the Soviet Union pledged a £ 110 million credit to Yugoslavia for the construction of three fertilizer plants, a power station and the modernization of three mines between 1958 and 1964. In August, 1956, after Tito's visit to Moscow, the Soviet Union in partnership with East Germany—whose government Yugoslavia did not then recognize diplomatically—extended an additional credit of £ 175 million, intended primarily for a combined hydroelectric and aluminium plant project at Niksic in Montenegro. This project has been a long-cherished dream of the Yugoslavs, who want to exploit their abundant bauxite deposits and hydroelectric power potential as part of a comprehensive effort to cope with persistent balance of payments difficulties. Lacking investment capital, the Yugoslavs turned to the Soviet Union for financing after failing to interest Western countries in the scheme. The project formed an integral part of the current five-year plan introduced in December, 1947, and was, therefore, predicated entirely on the Soviet-East German promise of assistance. Both governments guaranteed to supply all equipment, technical assistance and know-how for this ambitious Yugoslav industrial development, profiting also to finance a later phase of the plan which would boost aluminium production from the current 20,000 tons a year to an eventual capacity of 200,000 tons.

Ostensibly, the Soviet reason for the latest postponement of the credits (which the Yugoslavs regard as a virtual cancellation) was that these funds are needed at home in order to develop the Soviet chemical industry. It is not difficult, however, to see the correlation between this Soviet action and the fact that the Yugoslavs have recently been engaged in political polemics with the Russians. This is the second time in two years that the credits have been postponed by the Soviet Union—each time following a serious political dispute with Yugoslavia.

For three years after World War II Yugoslavia behaved much like the other countries in Eastern Europe. Then the well known squabble between Tito and Stalin broke out in mid-1948. The Soviet Union attempted to coerce Yugoslavia into submission by economic blockade. The Soviet line of investment credit amounting to \$ 135 million, very little of which had been delivered, was cut off. Trade was reduced unilaterally by the Soviet Union in 1949 to about one-eighth of its 1948 level.

These steps were taken by the Soviet Union, as *Pravda* stated, "because of the hostile policy of the Yugoslav Government toward the Soviet Union." The Soviet newspaper went on to declare that the Yugoslavs should note that retaining an anti-Soviet attitude would mean "depriving themselves of the right to demand material and any other assistance from the Soviet Union, because the Soviet Union can only offer aid to its friends." Tito had, in other words, committed the sin of insisting that Soviet assistance not carry with it any strings. Yugoslavia was expelled from the Communist Information Bureau (Cominform), declared a tool of the Western imperialists and denied any further economic assistance from the Soviet bloc. Stalin prophesied, "I will crook my little finger and there will be no more Tito!"

Displaying their antipathy to "Titoism" the East European members of the bloc followed the Soviet example in adopting economic sanctions. In short order Albania, Bulgaria, Czechoslovakia, Hungary, Poland and Romania denounced their commercial agreements with Yugoslavia. The volume of trade between these countries and Yugoslavia in 1948 had amounted to \$ 205 million. In 1949 it dropped precipitously \$ 52 million. The East European satellites also withdrew the substantial credits that had been extended to Yugoslavia.

With Communist credit facilities summarily ended and trade reduced to a standstill, the Soviet imposed economic boycott was complete and destined to portend economic disaster for Yugoslavia. One immediate result was a sharp decline in the total volume of Yugoslav trade.

A decrease of 22 per cent in 1949 was followed by another alarming decline of 19 per cent in 1950. An even greater blow, however, was the damage done to long range economic planning in Yugoslavia. The Yugoslav five-year plan had been based on the exchange of capital goods from the Soviet bloc for raw materials from Yugoslavia, with bloc commodity credits serving to relieve pressure on current Yugoslav production. The Soviet-inspired economic sanctions completely disrupted this arrangement and in addition deprived Yugoslavia of its chief sources of supply of such imports as fuel, fertilizers and pig iron.

The Soviet and Eastern European boycott between 1949 and 1953 did not, however, prove fatal to Yugoslavia, as Stalin had intended. After a period of uncertainty and much difficulty, Yugoslavia managed to reorient its trade toward Western Europe and the United States. France, Great Britain and the United States joined in providing financial assistance. Yugoslavia first modified and then abandoned its five-year plan and made other adjustments in its economy to compensate for the economic losses engendered by the Soviet and East European actions. By 1952 the total volume of Yugoslav trade was back to the 1948 level. Western credits, particularly from the United States, enabled Yugoslavia to resume its programme of industrialization, but on a more modest scale. It soon became apparent that Stalin's little finger had failed to eliminate Tito.

After Stalin's death in March, 1953, the new Soviet leaders began to make conciliatory overtures to Yugoslavia. Diplomatic relations were normalized and Communist party contacts were gradually restored. In October, 1954, relatively modest trade relations between Yugoslavia and the Soviet Union were initiated. In 1955 the East European countries also began to revive their trade with the country that they had branded seven years earlier as a Communist heretic.

In May, 1955, Khrushchev and Bulganin paid a visit to Yugoslavia. Khrushchev blamed Beria and others for the "charges and insults" against Tito in the Cominform resolution of 1948. "We sincerely regret and reject what followed thereafter," Khrushchev declared. The Soviet leaders further acknowledged in their signature of the Belgrade declaration that Tito had been right all along and agreed that it was possible for individual Communist countries to take "different roads to socialism."

In order to demonstrate further their good intentions of dealing with Yugoslavia on the basis of equality, the Soviet leaders hastened to make amends on the economic front. Yugoslavia's \$90 million debt to the

Soviet Union was cancelled in July, 1955. Trade agreements were signed to boost trade turnover to \$40 million in 1955 and to \$110 million in 1956. The level of trade was thus expected to surpass the \$80 million turnover of 1948. Soviet trade negotiators were very friendly in dealing with the Yugoslav representatives, expressing willingness to take almost any products that the Yugoslavs offered, including such hard-to-sell items as prunes and cheap textiles and shoes in exchange for scarce items such as coal, crude oil and steel.

With economic developments serving as the principal backdrop, Yugoslavia's relations with the Soviet Union seemed to move along smoothly in 1955 and early in 1956. In January, 1956, the Soviet Union extended the \$110 million development credit for the construction of fertilizer factories, a power plant and the renovation of three mines. The Soviet Union also promised to build an atomic reactor in Yugoslavia. One month later the Soviet Union granted a commodity credit of \$54 million (to be allocated at the rate of \$18 million a year) and a convertible currency or gold loan of \$30 million. In August, 1956, Yugoslavia negotiated the joint Soviet-East German credit of \$175 million for the development of the Yugoslav aluminium industry. Earlier Czechoslovakia had granted \$75 million in credits for commodity purchases and investment purposes. Poland also loaned Yugoslavia \$20 million for industrial and transport equipment. By September, 1956, the total amount of Soviet bloc credits promised to Yugoslavia had reached \$465 million. Yugoslavia welcomed this boost to its hard-pressed industrial and economic programme, since it was having difficulties in servicing debts to Western countries, particularly to Great Britain and West Germany.

Such deals, however, in October, 1956, Yugoslavia's truce with the Soviet Union was shattered by the events in Poland and the outbreak of the Hungarian revolution. Tito and other Yugoslav leaders denounced the intervention of the Soviet Union in Hungary. The Soviet leadership regarded Yugoslavia as responsible for much of the trouble in Eastern Europe by promulgating the concept of "different roads to socialism."

Economic reprisals were not long in coming. In the January, 1957 trade negotiations with Yugoslavia, the Soviet representatives suddenly became hard bargainers. During the long negotiations the Yugoslavs were told again that there would be "no more Soviet oil traded for Balkan oil." The new Soviet posture toward trade was not, of course, to reduce the level of trade than Yugoslavia had hoped to achieve in commercial relations in 1955. Trade

turnover with the Soviet Union, only \$3 million in 1954, increased rapidly to \$32 million in 1955, although these levels fell short of the targets set in official agreements. Another major increase occurred in 1956, bringing the level up to \$112 million. No significant increment followed in 1957, the total turnover remaining relatively stable at \$119 million, no doubt due to Soviet animus toward the Yugoslav position regarding Hungary.

East European trade with Yugoslavia, primarily involving Czechoslovakia, East Germany, Hungary and Poland, has increased substantially, doubling in volume each year since 1955. It totalled \$8 million in 1954 and then increased to \$36 million in 1955, \$75 million in 1956 and \$141 million in 1957. Both in 1956 and 1957 the share of all Soviet bloc countries, including mainland China, in Yugoslavia's total trade turnover ran to 24 per cent, accounting for 23 per cent of imports and upwards to one-fourth of exports. This trade turnover indicates the importance of the Soviet bloc in Yugoslav commercial relations, although the proportions have not attained the significance of 1948 relations—when one-half of Yugoslavia's trade was with the bloc countries—because of Yugoslavia's increased trade with Western Europe and the United States.

Even so, the Yugoslavs have been disappointed that trade relations with the Soviet bloc have not expanded further. But trade problems were overshadowed on February 21, 1957, by the culmination of the argument about the Hungarian revolution in the Soviet announcement that the contract to build the cherished aluminium plant "must be postponed until at least 1961." The Soviet Union also forestalled deliveries on equipment for a power plant and two fertilizer factories contracted for under the \$110 million investment credit. The official reason given for these suspensions of credits was that the Soviet Union must first complete its heavy commitments—both internally and to the satellites—under the five-year plan ending in 1960 and that there would be nothing left over for the Yugoslavs during that period. The Yugoslav leaders insisted that the agreement had to be honoured as a firm commitment by the Soviet Union and that any reneging on the contracts could only be interpreted as economic pressure exerted for political purpose. As if confirming this Yugoslav charge, Khrushchev declared in a speech in March, 1957: "The Soviet people are ready to share their last crumb of bread with other socialist states, but, comrades, we are going to share it with those who treat us fraternally!"

In mid-1957 the Soviet Union again chose to woo Yugoslavia and it resulted in a rapprochement. It was a relief to the Yugoslavs because

arguments between Belgrade and Moscow tended to isolate Yugoslavia from the other Communist countries of Eastern Europe. But the Yugoslavs had to accept a revised schedule for the aluminium project, which they valued so highly. The new delay postponed completion for three years, until 1964. The Yugoslav leaders felt that the latest Soviet commitment was genuine. With this expectation in view, they began investing their own resources in preparing the sites where the construction of the aluminium and fertilizer plants was to take place.

But political differences soon intervened again in Soviet-Yugoslav relations. In November, 1957, Yugoslavia refused to sign the Communist "declaration of unity" drafted in Moscow in connection with the 40th anniversary celebration of the Bolshevik Revolution. The declaration attacked the West with the usual Communist verbiage and charged the West with being responsible for the continuing threat of war. Stressing the urgency of the unity of all Communist countries, the declaration also asserted that all Communist countries must unite behind Soviet policy and leadership. When Yugoslavia declined to sign the statement, the Soviet Union and other Communist countries denounced the Yugoslav position. Tito's reply that "We do not pretend to be anything else than equal among equals" simply infuriated the Soviet Union further.

The next step in the procession of events was the Seventh Congress of the Yugoslav Communist League at Ljubljana in April, 1958. As a fore-warning of things to come, the Soviet Union decided not to send an official delegation to the Congress. Eastern Europe followed suit. The Yugoslav Communists in their draft programme for the Congress and during the actual proceedings reiterated their position of independence in the East-West struggle. The Soviet Union in turn denounced Yugoslavia's refusal to rejoin the Soviet bloc and recognize Russia as the leader of the Communist world.

The full force of the Soviet reaction to these latest instances of Yugoslav independence suddenly made itself felt one month later. First, the Soviet Union delayed the trade talks scheduled for May to implement the 1956 trade protocol with Yugoslavia. The only reason given was "lack of time" on the part of Soviet negotiators. Then, on May 27, the Soviet Union officially denounced the postponement of the \$ 385 million credit that had been constated as recently as July, 1957, after the earlier agreement following the Hungarian revolution. Officially this latest delay was to enable Yugoslavia to develop its chemical industry. But Khrushchev gave the actual reason for the cancellation in a speech in

Sofia, Bulgaria, on June 3. Charging that Yugoslavia accepted American aid with strings, Khrushchev branded Yugoslavia as "the Trojan horse of Western imperialism." Khrushchev also declared that the Cominform charges against Yugoslavia in 1948 were "basically correct."

At the moment, the Soviet-Yugoslav dispute is again being waged in terms of verbal polemics, while the rest of the world—particularly "neutralist" underdeveloped area—watches the Yugoslavs pick up the pieces of their shattered economic plans since this latest Soviet onslaught. In the short run, the damage is felt in two ways. The immediate effect is in terms of the pressure placed on Yugoslavia's trade agreements with bloc countries for 1958. The Communist countries have promised to import \$165 million worth of goods that Yugoslavia finds almost impossible to sell in the Western markets. All of the 1958 trade protocols, however, were signed long before the latest Soviet-induced economic boycott of Yugoslavia, which means that trade will probably retreat from its present levels. Certainly the Yugoslavs cannot expect favourable terms any longer, for the bloc negotiators will be driving very hard bargains in all future contracts, if any.

Another immediate effect felt by the Yugoslavs is the loss of the funds expended in developing the sites of the planned fertilizer factories and the aluminium project. Yugoslavia, in expectation of deliveries on the Soviet contracts, had spent sizeable sums in excavating work, at the building sites, the construction of access roads and the provision of water supplies. Whether these investments can still be rescued with credits from sources other than Soviet bloc remains to be seen.

In the long run, the greatest damage caused by the Soviet economic sanctions against Yugoslavia is that the five-year plan and industrial development programme have been thrown into complete disarray. This is the second time in ten years that the Soviet Union has wrecked a Yugoslav five-year plan only months after it was adopted. In 1947 and again in 1957 the Yugoslav economists based a considerable part of their planning in any given economic sectors on the assumption that Soviet promises of investment and trade would be honoured. Tito himself, in 1955, praised Soviet methods of economic co-operation because they facilitated long-term economic planning. Now the cancellation of the Soviet credits and the envisaged reduction in trade prevents long-term planning by Yugoslavia. In 1955, this perpetuated the chronic balance of payments problem which, if eliminated, the plan should have been well on the road to solution. The main aim for the moment is the Yugoslav dream of exporting

aluminium products and surplus electric power in order to solve the country's balance of payments difficulties. In effect, the Soviet actions create need for long-term Western credits to Yugoslavia to offset the dislocation of the development programme.

Apart from economic considerations, Yugoslavia has paid dearly and made several concrete concessions in coming to terms with the Soviet Union. The Soviet Union, for example, involved East Germany in the credit programme for the aluminium plant and forced Yugoslavia to recognize the East German government in October, 1957. Yugoslavia does not now have the equipment that the East Germans were supposed to supply for the aluminium plant. Yet Tito's government is left standing as the only one in the world outside of the Communist bloc recognizing the East German regime. Worst of all, West Germany severed diplomatic relations with Yugoslavia after Tito's recognition of the East Germans. The prospect of a possible reduction in trade with West Germany was certainly unwelcome to the Yugoslavs who can ill afford to lose one of their principal trading partners. Trade with West Germany has been increasing steadily since 1955, growing to the point where it exceeded the volume of trade with the Soviet Union in 1957 and amounted to more than one-half of the total Yugoslav trade turnover with the Soviet bloc. Tito also placed his American assistance in jeopardy by recognizing East Germany, because the United States took a second long look at its economic and military aid to Yugoslavia.

As a part of the price for receiving Soviet bloc aid, Yugoslavia also joined itself the only country voting with the Soviet bloc countries against the condemnation of the Soviet intervention in Hungary by the United Nations. One year previously the Yugoslav representatives in the United Nations had abstained from voting when the Hungarian problem was being considered. Finally, to placate the Soviet Union, Yugoslavia made other concessions, among them the reduction of its friendly contacts with the Socialist parties of Western Europe.

The reply of the Soviet bloc to these concessions has been to use again a very formidable weapon—the postponement of economic assistance to Yugoslavia whenever the Yugoslavs did anything that displeased the Soviet leaders. While promises of assistance from the Soviet Union have been many, the total amount of credits granted to Yugoslavia has actually received only about \$ 77 million, a relatively small amount of deliveries being made under the Yugoslav and Czech credits granted in 1956. According to the latest figures, only one-half of the Soviet-East German \$175 million

credit for the aluminum smelting tax ever been paid to Yugoslavia. Nor has the Soviet Union ever made delivery of the materials promised to Yugoslavia.

Certainly, for Yugoslavia the outlook is very grim. It is obvious that Tito has not been and is not now prepared to back down in his arguments with Khrushchev. Tito's principal concern, after all, is to maintain the independence of his country against all incursions. It is equally evident that the Soviet bloc will not restore the cancelled credits or substantially increase trade until the Soviet Union decides once again to aid Yugoslavia. Further, the Soviet bloc countries may well continue to apply economic pressure on Yugoslavia by gradually reducing trade, despite the recent East German-Yugoslav trade agreement.

The Soviet Union has already recognized that Yugoslavia's bitter experiences cast a long shadow over Soviet bloc economic relations with other countries. In an effort to reduce the damaging effects of its unilateral denunciation the Soviet Union offered an explanation on July 1. The Soviet argument is that the credits did not serve the principle of mutual advantage because Yugoslavia stood to gain more than the Soviet Union once the credits were used. This being so, the Soviet Union is justified in keeping the funds at home to develop the chemical industry.

Furthermore, the Soviet Union argued that the credit arrangements were not based on sound business practices because the terms were "exceptionally easy" for Yugoslavia. This contention is, of course, in direct conflict with the Soviet claim that all of its loans are hard loans, negotiated on a strictly commercial basis. The Soviet Union has also expressed willingness to sell to Yugoslavia for cash the equipment and services that had previously been negotiated on credits. Yugoslavia was not given any hint, however, about where to get the funds for such purchases. Finally, Yugoslavia has been invited to "discuss in a business-like way" the postponement of the credits—an invitation to participate in a new form of Soviet diplomacy, the "mutual" denunciation of economic agreements.

The Soviet Union has certainly refined its technique since 1958 in denying aid. No longer are there the angry repudiations of agreements, or crude denunciations. Now there is a "postponement" of credits or trade negotiations with an attempt at a plausible explanation for the delay. But even though the Soviet methods are less crude in 1958, the Yugoslav

example points to the hazards and pitfalls for any country accepting Soviet bloc economic assistance.¹

The sources used in preparing this paper include news stories and features from the *New York Times*, the *Washington Post*, the *Christian Science Monitor* and the *London Times* over the past ten years, the dispatches by Eric Bourne of the *Monitor* and *The Asia* of the *Times* being most helpful. Other general information came from Hamilton Fish Armstrong, *Tito and Goliath* (1954); Fitzroy Maclean, *The Heretic* (1957); R. Barry Unruh, *The Tito and the Soviet Union: 1948-1956* (1956); Robert F. Byrnes (ed.), *Yugoslavia* (1957); Thomas J. Hammond, *Yugoslavia Between East and West* (1954); "Soviet-Yugoslav Economic Relations," *The World Today* (January); Immanuel Baskbaum, "Whether Tito?" *Problems of Communism* (January-February, 1958); American Committee for Liberation, "Ten Years of Soviet-Yugoslav Relations, 1948-1958, a Chronology." Trade information and other data on Yugoslav relations with the Soviet bloc were obtained from *Trade Agreements and other Trade Accords between the Soviet Bloc and Free World Countries of Europe* (U.S. Department of State); *International Trade News Bulletin* (GATT); and *Direction of International Trade* (Joint Publication of the United Nations, International Monetary Fund and International Bank for Reconstruction and Development), as well as *Uchislennaya Torgovlia* (Moscow) and the *Current Digest of the Soviet Press* (Ann Arbor, Michigan).